

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Great Northern Utilities, Inc.	:	
	:	11-0059
Proposed General Increase in	:	
Water Rates	:	
	:	
Camelot Utilities, Inc.	:	
	:	11-0141
Proposed General Increase in Water and	:	
Sewer rates	:	
	:	
Lake Holiday Utilities Corporation	:	
	:	11-0142
Proposed General Increase in	:	
Water Rates	:	(Cons.)

**BRIEF ON EXCEPTIONS OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

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September 28, 2011

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**BRIEF ON EXCEPTIONS OF THE STAFF
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Staff of the Illinois Commerce Commission (“Staff”), by and through its undersigned counsel, pursuant to Section 200.830 of the Illinois Commerce Commission’s (“Commission” or “ICC”) Rules of Practice (83 Ill. Adm. Code 200.830), respectfully submits its Brief on Exceptions in the instant proceeding.

I. INTRODUCTION

On December 22, 2010,¹ Great Northern Utilities, Inc. (“Great Northern”), Camelot Utilities, Inc. (“Camelot”), and Lake Holiday Utilities Corporation (“Lake Holiday”) (collectively, “Utilities, Inc.” or “the Companies”) filed tariffs seeking a general

¹ Camelot and Lake Holiday filed on December 30, 2010.

increase in water and sewer rates.² On January 20, 2011 and February 9, 2011, the Commission entered Suspension Orders commencing the investigation concerning the propriety of the Companies' request for rate increases and on May 18, 2011 entered a Resuspension Order extending the suspension through November 29, 2011. At a status hearing on March 10, 2011, the Administrative Law Judge ("ALJ") assigned to this proceeding granted Staff's request to consolidate the three dockets. The ALJ established a schedule for the submission of pre-filed testimony, hearings, and briefs (*Tr.*, March 10, 2011, p. 7).

Camelot Homeowner's Association intervened on March 16, 2011, and various customers residing in the Camelot service territory filed Direct and Rebuttal Testimony. The People of the State of Illinois ("AG") intervened on June 9, 2011 and filed Rebuttal Testimony.

At the July 13 and 14, 2011 evidentiary hearing in this matter, witnesses for Utilities, Inc., Staff, and the AG testified. Staff and the Companies entered into a Stipulation³ resolving all issues that had been disputed between the Companies and Staff. In that Stipulation, the Companies agreed to Staff's recommended revenue requirement, as well as all accounting adjustments recommended by Staff's witnesses in their Direct and Rebuttal Testimony. (Staff-Companies Joint Ex. No. 1 REV., at 2-3.) Neither Camelot Homeowners Association nor the AG participated in the Stipulation.

² Great Northern and Lake Holiday sought only increases in water rates, not sewer.

³ In fact, Staff and the Companies entered into a Stipulation on July 13 and then revised some calculations slightly and entered into the Revised Stipulation on July 14. The Revised Stipulation was filed on e-docket on July 15 as Staff-Companies Joint Ex. No. 1 REV.

The parties filed Initial Briefs (“IBs”) on August 4, 2011. Reply Briefs (“RBs”) and Draft Proposed Orders (“POs”) were filed on August 19, 2011. The ALJ issued a Proposed Order (“ALJPO”) on September 14, 2011. This BOE follows.

The ALJPO generally provides an accurate summary of the positions of the parties and reaches conclusions consistent with analytical reasoning and applicable law. Nonetheless, Staff offers clarifying language for a few sections of the ALJPO, described below. Although these are actually clarifications, as Staff is not objecting to any conclusions, Staff will label them exceptions for the convenience of the parties should they wish to respond. Staff also provides a copy of the ALJPO with its proposed edits, as well as minor typographical edits, for the ALJ’s convenience, as Attachment 1 to this BOE.

II. EXCEPTIONS

Staff Exception 1: Changes to Depreciation Section

V. RATE BASE

A. Uncontested Issues

8. Depreciation Rates

Staff agrees with the Proposed Order’s overall conclusion regarding the implementation of separate depreciation rates for each primary account for Camelot, Great Northern, and Lake Holiday. However, Staff believes the Proposed Order’s language should be changed for clarification purposes. Therefore Staff proposes the following changes:

With respect to depreciation rates, the Companies proposed moving from composite water and sewer depreciation rates to separate water and sewer depreciation rates for each primary account. Staff witness Johnson proposed some

adjustments to the Companies proposed water and sewer depreciation rates. The resulting depreciation rates are identified on Staff Ex. 9.0, Schedules 9.01 C-W, 9.01 C-S, 9.01 GN, and 9.01 LH. ~~The proposed sewer depreciation rates produce a test year ending December 31, 2009 annual sewer depreciation expense of \$32,773, excluding depreciation expenses associated with WSC.~~ The Companies agreed with Staff's proposed depreciation rate adjustments. These adjustments are reasonable and are hereby approved.

Staff Exception 2: Rate Shock

IX. Rate Shock

C. Staff's Position

Staff agrees with the Proposed Order's overall conclusion regarding rate shock. However, with regard to Staff's characterization of the Association's arguments, the example used in the Proposed Order is not actually flawed math, but merely misleading. Therefore Staff proposes the following additional language:

With respect to Camelot, Staff argues the Association repeatedly uses flawed mathematics in its attempts to exaggerate Camelot's proposed rates. For instance, while the Association correctly notes that "proposed water rate increases range as high as 632%," it fails to explain that the 632% increase is for the base facility charge which is only a portion of the overall water rate and this charge only applies to five customers. In addition, the Association fails to explain that Camelot does not currently have any customers that would be subject to a 632% increase in the overall water rate. Furthermore, Staff contends that the Association's claim of an increase more than 700% is mathematically inaccurate. (Staff Reply Brief at 11).

Staff Exception 3: Rates

VIII. Rate Design/Tariff Terms

Rate Design

As stated in Staff's IB (at 21- 22), Staff agreed with the Companies' rate design. Great Northern proposed the Usage Charge revenue should be 65% of Great

Northern's total proposed revenue, which allocates 35% for the Base Facilities Charge revenue. This rate design proposal and agreement is different than that of Lake Holiday and Camelot.

Accordingly, Staff agreed with Camelot and Lake Holiday's proposals to recover a greater percent of the revenue requirement from the Usage Charge so that customers are more able to control their monthly bill by adjusting their usage to match their budget. *Id.*, at 23-24, 25-26.

If there is any difference between the revenue requirement adopted by the Commission and agreed upon in the Stipulation for Camelot, Staff proposed water Base Facilities Charges and Usage Charge should be adjusted by changing the value of the 'Total Operating Revenue Requirements' in Staff Exhibit 5.0, Schedule 5.2 to recover the revenue requirement adopted in the Final Order. This will ensure that Camelot's water Base Facilities Charges are based on AWWA meter factors, where the allocation of costs among customer types was done through the application of meter factors.

In Staff's IB for Lake Holiday (at 24), Staff proposed that if the Commission decides to adopt a revenue requirement other than that stipulated to by Staff and Lake Holiday, then the water charges proposed by Staff as shown on Schedule 6.4 should be adjusted on an equal percentage basis to recover the revenue requirement adopted in the Final Order for Lake Holiday. This proposal was in fact, made in error. Instead, if there is a difference between the revenue requirement adopted by the Commission and agreed upon in stipulation for Lake Holiday, Staff proposed water Base Facilities Charges and Usage Charge should be adjusted by changing the value of the 'Total Operating Revenue Requirements' in Staff Exhibit 6.0, Schedule 6.2 to recover the

revenue requirement adopted in the Final Order. This will ensure that Lake Holiday's water Base Facilities Charges are based on AWWA meter factors, where the allocation of costs among customer types was done through the application of meter factors.

Therefore, Staff recommends the following changes to the proposed order.

Staff contends the Companies' rate design proposals are reasonable. However, Staff recommends the Commission set the rates based upon Staff's proposed revenue requirement. Staff recommends that Camelot's (sewer) rates should be determined by multiplying the Companies' proposed customer and usage charges by the ratio of Staff's proposed revenue requirement to the Companies' proposed revenue requirement across-the-board.

For Camelot (water), Staff recommends that the rate design should be set as 84% of the total proposed revenue assigned to the Usage Charge and 17% of the total proposed revenue should be assigned to the Base Facilities Charge. Staff witness Rukosuev increased its water Base Facilities Charges based on AWWA meter factors, where the allocation of costs among customer types was done through the application of meter factors.

For Lake Holiday, Staff recommends that the rate design should be set as 74% of the total proposed revenue assigned to the Usage Charge and 26% of the total proposed revenue should be assigned to the Base Facilities Charge. Staff witness Boggs increased its water Base Facilities Charges based on AWWA meter factors, where the allocation of costs among customer types was done through the application of meter factors.

For Great Northern, Staff recommends the rate design should be set as 65% of the total proposed revenue assigned to the Usage Charge and 35% of the total proposed revenue should be assigned to the Base Facilities Charge.

III. CONCLUSION

For the reasons set forth above, Staff respectfully requests that the Commission's Final Order in the instant proceeding reflect Staff's recommendations

above and that the Company's proposed tariff changes be modified in accordance with Staff's recommendations.

Respectfully submitted,

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September 28, 2011

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